

CONFIDENTIAL

~~SECRET~~

COPY NO. 16

OCI NO. 3262/56

14 June 1956

CD/EI)

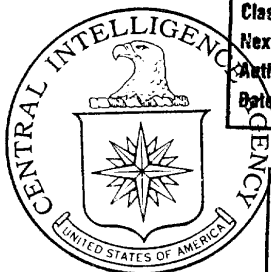
CURRENT INTELLIGENCE WEEKLY SUMMARY

Document No. 14
No Change in Class. ☐
☐ Declassified
Class. Changed to: TS S © 1989
Next Review Date: _____
Auth.: HR 70-3
Date: 9 Aug 79 By: _____

25X1

Document No. 14
No Change in Class. ☐
☐ Declassified
Class. Changed to: TS S © 1998
Next Review Date: 1998
Auth.: HR 70-3
Date: 20 Aug 79 By: _____

25X1



Document No. 14
No Change in Class. ☐
☐ Declassified
Class. Changed to: TS S © 1989
Next Review Date: 1989
Auth.: HR 70-3
Date: 20 Aug 79 By: _____

25X1

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

~~SECRET~~

CONFIDENTIAL
E651011

25X1

Page Denied

~~SECRET~~

CONFIDENTIAL

CURRENT INTELLIGENCE WEEKLY SUMMARY

14 June 1956

THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

SHEPILOV'S VISIT TO NEAR EAST Page 1

Soviet foreign minister Shepilov's visit to Egypt, Syria, and Lebanon will provide another demonstration of Soviet support for the Arabs. Shepilov's primary objective probably is to gain Egypt's acceptance of the Soviet offer to finance the Aswan High Dam. On his way back to Moscow, Shepilov will pay an unofficial visit to Greece. While there, he may renew economic aid offers, to which the Greeks are susceptible, and reiterate Soviet support on the Cyprus issue. [REDACTED]

25X1

ICELAND'S ELECTIONS
AND THE KEFLAVIK AIR BASE Page 2

The American-manned NATO air base at Keflavik assumed even greater importance as an issue in the 24 June Icelandic parliamentary election with Foreign Minister Gudmundsson's presentation on 11 June of a formal note asking the United States for revision of the 1951 defense agreement. Despite this election maneuver, no single party or electoral alliance seems likely to obtain a parliamentary majority. [REDACTED]

25X1

PREMIER BULGANIN'S LETTER
TO PRESIDENT EISENHOWER Page 4

The principal purpose of Bulganin's letters of 6 June to President Eisenhower and to the leaders of the other major Western powers was to focus world attention on the USSR's 14 May announcement that Soviet armed forces would be reduced by 1,200,000 men before May 1957. The letters were timed to strengthen the arguments of West German and Western European opponents of the planned West German arms build-up before the Bundestag opens final debate on conscription legislation early in July. [REDACTED]

25X1

AMERICAN BASES IN THE PHILIPPINES Page 5

Long-delayed negotiations between the United States and the Philippines on the question of American bases are now scheduled to begin shortly after Ambassador Nufer arrives in Manila in July. The discussions may bring forth Philippine proposals for drastic revision of the present base agreement. [REDACTED]

25X1

CONFIDENTIAL

~~SECRET~~

1

THE WEEK IN BRIEF

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****14 June 1956****PART II****NOTES AND COMMENTS****TITO IN THE USSR Page 1**

Talks between Marshal Tito and the Soviet leaders are scheduled to continue until Tito's visit ends about 21 June. While the Russians have used every opportunity to stress the compatibility of views between Tito and themselves, there remain areas of considerable difference, particularly on the subject of Soviet-Satellite relations. The Yugoslavs have denied rumors of a mutual assistance pact. [REDACTED]

25X1

KAGANOVICH RESIGNATION Page 1

The resignation of Lazar M. Kaganovich as chairman of the USSR State Committee on Labor and Wages continues the pattern of relieving members of the party presidium and first deputy premiers from direct administrative responsibilities. Kaganovich, whose political stature has apparently not diminished, probably will devote himself to policy formulation and special problems. His successor, A. P. Volkov, who has been serving as government head in Moscow Oblast, is apparently a Khrushchev protégé. [REDACTED]

25X1

Page 3

25X1

ARAB-ISRAELI SITUATION Page 4

A report that Israel is constructing bunkers near Banat Yacov, the only disquieting note in an otherwise calm situation, was balanced last week by a substantial demobilization of Israeli personnel and vehicles. [REDACTED]

25X1

SECRET

ii

THE WEEK IN BRIEF

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

PAKISTAN--AFGHANISTAN Page 4

Pakistani president Mirza's visit with Afghan king Zahir Shah seems likely to be postponed until late summer because of the king's reported illness. There have been four border incidents in the past two months. Since Pakistan and Afghanistan have shown no sign of modifying their position, there is little chance for an improvement in relations.

25X1

SINGAPORE Page 5

Singapore's new chief minister, Lim Yew Hock of the Labor Front, probably will be able to maintain a fairly stable anti-Communist government during the next several months. Lim may, however, have to contend with attacks by former chief minister Marshall and growing popular opposition led by the Communist-manipulated People's Action Party.

25X1

**RIVAL CLAIMS
TO SOUTH CHINA SEA ISLANDS Page 6**

Claims to the Paracel and Spratly Island groups in the South China Sea have been advanced by several nations since a private Filipino citizen asserted ownership of some of the Spratlys last month. Communist China, Nationalist China and South Vietnam all claim the Paracels, and the same three, together with France, have announced sovereignty over the Spratlys. Meanwhile, a Vietnamese report of Chinese Communist troop landings in the Paracels on 9 June, later found to be incorrect, led President Diem to ask for a study as to whether the SEATO treaty should be invoked to rid the islands of Communists.

25X1

ARGENTINA Page 8

The Argentine government succeeded, by using drastic measures, in crushing the brief but violent "Peronist-Communist-Nationalist" rebellion of 9-10 June. Further violence may result, if the regime prolongs rigorous enforcement of the martial law regulations or if it fails to demonstrate good intentions regarding such rebel complaints as the postponement of elections and high living costs. No further cabinet or top-level army changes beyond those of last week have been made.

25X1

SECRET

111

THE WEEK IN BRIEF

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****14 June 1956****SOVIET-JAPANESE RELATIONS Page 9**

The Japanese government's grant of limited official recognition to the Soviet mission in Tokyo opens the way for licensing Japanese fishing in Soviet restricted waters while postponing the settlement of the primary problem of diplomatic relations between Tokyo and Moscow. Japan, however, is already committed under recently concluded agreements with Moscow to restore relations, and Tokyo's problem is now one of timing and method. Present prospects are that full diplomatic relations will be resumed in the near future. [REDACTED]

25X1

**COMMUNIST CHINA
PURSUES VIGOROUS EXPORT PROGRAM Page 10**

Chinese Communist exports, which had increased only moderately since 1950, are estimated to have expanded by one third during 1955 over 1954 to a total of \$2 billion, which is well above the prewar volume. The Chinese have put increasing emphasis on production and sales of construction materials and light industrial products in order to develop new markets and to impress non-Communist Asia with China's industrial progress. [REDACTED]

25X1

NORTH KOREAN FIVE-YEAR PLAN Page 11

The ambitious targets of North Korea's First Five-Year Plan (1957-61) call for the restoration of over-all industrial production at least to the level reached under the Japanese. Achievement of this goal will require continuing support from the Sino-Soviet bloc. [REDACTED]

25X1

**FREAK WEATHER HURTS
CHINESE AND VIET MINH ECONOMIES Page 13**

Freak weather may bring famine in North Vietnam and some portions of Communist China this year, as it did in 1955. For the last 18 months, rain which normally falls on the agricultural lands of Southeast Asia has fallen instead on the remote uplands of Western China and Tibet, causing drought in rice-producing areas. The run-off has brought disastrous floods to many of the areas afflicted by drought. [REDACTED]

25X1

SECRET

iv

THE WEEK IN BRIEF

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

THE NEW BURMESE CABINET Page 14

The make-up of the new Burmese cabinet indicates that the Burma Socialist Party has strengthened its direct control of the government at the expense of supporters of outgoing Premier Nu. Barring serious trouble at home or in connection with Burma's foreign relations, it seems unlikely that the Socialists will permit U Nu to return to the premiership after the stipulated one-year interval. Ba Swe, the new premier, is unlikely to undertake any major revision of Burmese policies in the immediate future. [REDACTED]

25X1

RAIL ACCESS TO WESTERN SOVIET ARCTIC IMPROVED Page 15

Work now under way to develop rail access to the Western Soviet Arctic will increase the economic and strategic value of the area. On the Kola Peninsula, the line to Murmansk is scheduled to be double-tracked to within 100 miles of Murmansk, and a parallel line closer to the Finnish border is also under construction. Another new line scheduled for construction will facilitate the development of a new port in the Soviet Arctic with direct rail connections with the North Urals. [REDACTED]

25X1

RAKOSI'S STATUS IN HUNGARY Page 16

The trip of Soviet party presidium and secretariat member Suslov to Budapest, where he arrived on 8 June, may result in a clarification of the status of Hungarian party first secretary Rakosi. Suslov will probably attend the Hungarian central committee meeting reportedly called to deal with the problem of Hungarian party factionalism. In an effort to conciliate the anti-Rakosi faction, Suslov may limit Rakosi's personal power or even withdraw the USSR's support of the Hungarian party chief. [REDACTED]

25X1

POLES CLAIM INCREASING INDEPENDENCE FROM USSR Page 18

A number of Polish officials and journalists were claiming in late May that Poland might eventually emerge as an independent state, allied with the Soviet bloc, but able to deal freely with the Western world. These views were probably being circulated to encourage economic contacts abroad and create the impression that Warsaw is adopting a policy of liberalization and independence of action. [REDACTED]

25X1

SECRET

v

THE WEEK IN BRIEF

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****14 June 1956****THE ITALIAN COMMUNISTS
AFTER THE ELECTIONS Page 19**

The Italian Communists' losses to their Nenni Socialist allies in the 27-28 May local elections have further complicated the relationship between the two parties and have left the Communists with no clearly defined policy to overcome the handicap of their isolated position. The absence of a joint communiqué following Togliatti's meeting with Nenni on 2 June suggests that the two leaders failed to reach a common policy for future operations. [REDACTED]

25X1

PART III**PATTERNS AND PERSPECTIVES****THE PINEAU VISIT TO WASHINGTON
AND THE PROSPECTS FOR THE MOLLET GOVERNMENT Page 1**

France's Foreign Minister Pineau will arrive in Washington on 18 June to seek American backing for his government's policy on Algeria, on future relations between the East and West, and on disarmament. Pineau is anxious to strengthen the domestic position of the Mollet government, whose policies have disillusioned many of its followers and which is becoming increasingly dependent on the right. Most observers believe the Mollet government will survive until autumn. [REDACTED]

25X1

ORGANIZATIONAL CHANGES IN THE SOVIET GOVERNMENT Page 3

The Soviet government has reorganized several ministries and has transferred direct administrative responsibility for a number of enterprises from Moscow to ministries in the union republics. These changes, which increase responsibility of republic administrations for carrying out national economic plans, are intended to improve efficiency and raise morale among local managers. The Soviet administrative system remains, however, highly centralized. [REDACTED]

25X1

SECRET

vi

THE WEEK IN BRIEF

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

THE SITUATION IN PAKISTAN Page 6

The present struggle for power in Pakistan points up the country's chronic political instability. This situation, the malfunctioning of the economy, and quarrels with India and Afghanistan not only reduce the value of Karachi's membership in the British Commonwealth, SEATO, and the Baghdad pact, but have caused the Mirza government to accept closer ties with the Sino-Soviet bloc. [REDACTED]

25X1

WEST GERMAN ECONOMIC ACTIVITIES IN ASIA Page 9

West Germany's growing economic interest in the industrially undeveloped areas has focused to a considerable extent on long-term investment projects in the Middle East, South and Southeast Asia. Owing partly to the scarcity of investment capital at home and partly to the fear of Soviet competition, German industrialists have in recent months sought financial support from their government and promoted plans for a pooling of Western financial resources for development projects in these areas. [REDACTED]

25X1

25X1

SECRET

vii

THE WEEK IN BRIEF

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****14 June 1956****PART I****OF IMMEDIATE INTEREST****SHEPILOV'S VISIT TO NEAR EAST**

Soviet foreign minister Shepilov's visit to Egypt, Syria, and Lebanon will provide another demonstration of Soviet support for the Arabs. Shepilov's primary objective probably is to gain Egypt's acceptance of the Soviet offer to finance the Aswan High Dam. On his way back to Moscow, Shepilov will pay an unofficial visit to Greece. While there, he may renew economic aid offers, to which the Greeks are susceptible.

Aswan High Dam

Shepilov's visit to Cairo for the ceremonies on 18 June celebrating the evacuation of British troops from the Suez will have a dramatic backdrop--the first public display of Soviet bloc military equipment in Egypt as part of the military review. Shepilov had been invited to the ceremonies by the Egyptians when he was editor of Pravda, before he became foreign minister.

It is probable that the Soviet foreign minister will press the Soviet offer to finance the Aswan High Dam, taking advantage of growing Egyptian suspicions that the West is not prepared to follow

through with its offer. He was successful in a similar effort last year when, as the Egyptian press points out, "he had talks with Prime Minister Nasr culminating in agreement on the Czech arms deal which was concluded after all Western sources had locked their doors in Egypt's face."

The Egyptian press, and Nasr himself in earlier statements, have intimated that Egypt probably would accept a Soviet offer on the high dam if negotiations with the West

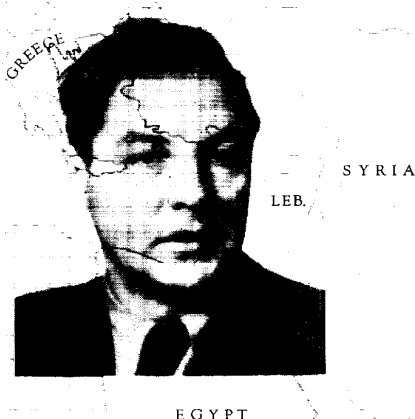
fail. The Nasr regime is so far committed to the project that it would feel compelled to accept Soviet financing and technical assistance.

In addition, there is speculation in Cairo that an Egyptian-Soviet friendship treaty may be in the making. In view of Nasr's public stand against Arab participation in non-Arab pacts, such a develop-

ment seems unlikely, although Nasr might seek such a treaty as a cheaper form of insurance against Israel than further extensive arms purchases.

Arab-Israeli Dispute

In discussions with Egyptian as well as Syrian and Lebanese officials, Shepilov

**SECRET**

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

may seek to reach a unified position regarding the Arab-Israeli dispute. Lebanese premier Al-Yafi has publicly stated that during Shepilov's three-day visit to Beirut "important discussions" would take place dealing with "the Palestine question in particular and the necessity of finding a satisfactory solution to it in favor of its Arab inhabitants."

Shepilov will visit Syria on 28 June. The Syrian acting director general of political affairs stated to Ambassador Morse on 9 June that he expects Shepilov to make a dramatic pro-Arab gesture while in the area and mentioned the likelihood that the USSR would shortly propose negotiation of a Palestine settlement on the basis of the 1947 UN resolutions.

The Arabs are probably doing some wishful thinking regarding the extent to which Moscow will support their radical demands. The USSR's primary aims to keep the West from intervening in the Arab-Israeli dispute and to restrict negotiations to the UN have been accomplished and there is little reason at the present time for Moscow to take or suggest any

initiatives either to solve or exacerbate the dispute. Shepilov will probably restrict his discussions with the Arabs on their dispute with Israel to statements of general support and good will.

Aid to Greece

According to press reports, Soviet ambassador Sergeyev has informed the Greek foreign minister that Shepilov would stop in Athens on his return from the Arab states. The Greek government has stated it has no objection to the visit, which will be unofficial.

Shepilov will probably take the opportunity to renew offers of economic aid to the Greeks, and reiterate Soviet support for Greece on the Cyprus issue. The American embassy in Athens commented in late May that the Soviet courtship of Greece had recently gained considerable momentum with approaches in all sectors--political, economic and cultural. The embassy noted on 11 June that recent internal economic developments have tended to weaken the Greek will to resist Soviet economic overtures.

25X1

**ICELAND'S ELECTIONS
AND THE KEFLAVIK AIR BASE**

The American-manned NATO air base at Keflavik assumed even greater importance as an issue in the 24 June Icelandic parliamentary election with Foreign Minister Gudmundsson's presentation on 11 June of a formal note asking the United States for revision of the 1951

defense agreement. Despite this election maneuver, no single party or electoral alliance seems likely to obtain a parliamentary majority.

Note to the US

The note cites the parliamentary resolution of 28 March,

SECRET

PART I

OF IMMEDIATE INTEREST

Page 2 of 6

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

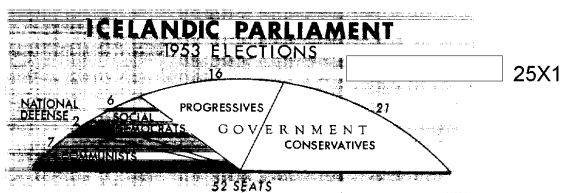
which states that foreign armed forces should not be stationed in Iceland during peacetime. The note then suggests that discussions between the two governments begin on 1 August in order to "introduce a new system" to replace that adopted under the 1951 agreement. Under the "new system," the Icelanders probably hope to take over the care and maintenance of the defense installations, and to arrange for the withdrawal of the defense forces. Under the defense agreement, Iceland could legally force the withdrawal of American troops 18 months after opening negotiations for a revision of the agreement.

Presentation of the note at this time was probably forced on Gudmundsson by his Progressive Party, a largely agrarian group which, in an electoral alliance with the Social Democrats, has sought to exploit the strong dislike of many Icelanders for the presence of American troops. The move is probably intended to appeal to these radical elements, particularly the supporters of the small National Defense Party which is fanatically opposed to the base. Communist campaigners, competing for the radical vote, have questioned Gudmundsson's sincerity in doing nothing to implement the parliamentary resolution.

Party Positions

The Conservatives, the most moderate party on the base issue, have been assailed as a profiteering pro-base party. This tactic does not appear to have seriously embarrassed the Conservatives thus far, and recent reports suggest that the party may be benefiting from a somewhat increased awareness

of some Icelanders that the air base is a vital source of dollar exchange. To counteract this trend, opposing elements have emphasized the impact of the base on the country's inflation-ridden economy by



diverting manpower from Iceland's basic industries--fishing and agriculture.

There are strong indications that the Conservatives are not anxious to assume sole governmental responsibility under the present difficult economic circumstances. With the Icelandic Federation of Labor controlled by Communists and left-wing Socialists, labor unrest could follow. Moreover, a Conservative government would be faced with imposing some kind of "austerity" program on the country if economic stability is to be restored.

The Progressive-Social Democratic alliance could make considerable gains, provided the rank and file follow party directives and support the common candidate in each electoral district. The new Communist-front party, the Labor Alliance, consisting of Communists and renegade left-wing Socialists, is not expected to improve on the Communist record in 1953--16.5 percent of the popular vote and seven seats in parliament. In the heated campaign to date, no group has seemed to gain a sufficient

SECRET

PART I

OF IMMEDIATE INTEREST

Page 3 of 6

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

14 June 1956

edge to give it a parliamentary majority, but the Progressives and Social Democrats are likely to attempt a minority government if their alliance increases its parliamentary strength.

The new government is now committed to seek some revisions in the 1951 agreement. The

nature and scope of the revisions demanded will be determined by the character of the new government, but Gudmundsson's move has probably made it more difficult for the moderate elements to resist pressure from the nationalists and leftists for a radical revision.

25X1

PREMIER BULGANIN'S LETTER TO PRESIDENT EISENHOWER

Premier Bulganin's letter of 6 June to President Eisenhower was designed primarily to focus world attention on the USSR's 14 May announcement of a plan to reduce Soviet armed forces by 1,200,000 men before May 1957. Similar letters were delivered by Soviet ambassadors to the heads of government of Britain, France, West Germany, Canada, Italy, and Turkey. Although messages were tailored for individual governments, the emphasis in each case was on the obligation of these powers to match the Soviet initiative in making a unilateral force reduction without waiting for an international disarmament agreement.

West German Rearmament

The significance of the letters lies in the special emphasis given to that part of the Soviet 14 May announcement dealing with plans to demobilize three Soviet air divisions and "other combat units numbering over 30,000 men" stationed in East Germany. Bulganin said the withdrawal of these forces is "only the first step" and suggested that corresponding withdrawals of Western forces in Germany would "prepare the ground for more decisive steps in this matter," such as a

four-power agreement on a "sharp reduction" or withdrawal of all foreign forces in Germany.

The delivery of the letters at this time was probably intended to strengthen the arguments of West German and Western European opponents of the planned West German arms build-up before the Bundestag opens final debate on conscription legislation early in July. Chancellor Adenauer told Ambassador Conant on 7 June that the Bulganin letter may add to his difficulties in securing the passage of the conscription bill.

Unilateral Force Cuts

Bulganin's remark in his letter to President Eisenhower that the United Nations Disarmament Subcommittee negotiations are retarding progress toward an agreement echoed the negative attitude toward the subcommittee displayed by Khrushchev during the Soviet leaders' recent visit to Britain. Bulganin apparently intended to justify the USSR's "new approach" to disarmament, featuring unilateral "concrete measures" without waiting for an international disarmament agreement. The reference probably does not

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

foreshadow, however, a Soviet refusal to participate in further subcommittee talks.

The Soviet leaders appear confident that their unilateral force reductions have placed the Western governments in a difficult position before world opinion and will eventually force them to curtail their military spending and reduce their armed forces, even in the absence of a formal disarmament agreement. Khrushchev told French premier Mollet and Foreign Minister Pineau in Moscow last month that no possibility of a disarmament agreement exists because of the attitude of the United States government

and, therefore, the USSR had decided unilaterally to cut its forces.

While Bulganin's letter did not discuss any of the matters raised in President Eisenhower's letter of 1 March 1956, the Soviet government may have intended it as a formal reply. If so, this would again be evidence that the Soviet leaders are reluctant to become involved in further negotiations on the cardinal questions of inspection and control, preferring to rely on the unilateral approach as the most effective device for advancing the political aims of their disarmament policy.

25X1

AMERICAN BASES IN THE PHILIPPINES

Negotiations toward expansion of major American bases in the Philippines, repeatedly postponed in deference to volatile Philippine public opinion, are now scheduled to begin shortly after Ambassador Nufer arrives in Manila in early July.

The Filipinos are primarily interested in obtaining clear-cut recognition of their ownership of the areas where American bases are located. In early May, the Philippine Senate adopted a resolution expressing its "sentiment for the retention" of Philippine ownership of the base lands acquired both before and after Philippine independence. Omission of the ownership issue from the reported agenda of the Philippine negotiating panel is also a clear indication of the strong sentiment in Manila that the matter is not even a subject for negotiation.

Recto's Role

Meanwhile, such ultranationalists as Senator Claro Recto are not only exploiting the "sovereignty" issue for its own value but as a means of attacking President Magsaysay's pro-American policies in general.

Recto has long been interested in placing greater restrictions on American base rights. He is now advocating a drastic revision of the bases agreement along the lines of the US agreement with Spain, including a reduction of the lease period from 99 to 20 years and ultimate Philippine possession of all installations and improvements. Recto has powerful support in both the legislative and executive branches of the Philippine government and his views may be strongly reflected at the negotiating table.

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

14 June 1956

Magsaysay's Views

Magsaysay has shown particular sensitivity to domestic political exploitation of the bases questions and has been fearful of possible violence between Filipinos and American personnel. He is anxious to demonstrate that Philippine interests can be satisfied through close friendship with the United States and to combat a growing feeling among some Filipinos that they are "taken for granted."

The American embassy in Manila believes that the climate for successful settlement of other issues will steadily worsen until the ownership question is resolved. Resentment has

been aroused by restrictions imposed on residents of the town of Olongapo, which is situated within the Subic Bay naval reservation, and action taken against unauthorized mining activity inside the Clark Field air force reservation.

The mining incident evoked the personal intervention of President Magsaysay in reaching a temporary solution, as well as his first public criticism of "unnecessary friction" caused by "shortsighted acts" of the United States. He is now reported to be concerned that the closed-off streets in the US military port of Manila will become another public issue.

25X1

* * *

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

PART II**NOTES AND COMMENTS****TITO IN THE USSR**

Marshal Tito's talks with the Soviet leaders, formal and informal, are to continue until his visit to the USSR ends about 21 June. Any substantive results of the trip are still to be disclosed, perhaps in the final communique or during the wind-up speeches which Tito and Khrushchev are scheduled to make in Moscow's Dynamo Stadium on 19 June.

Tito, accompanied by Bulganin, spent two days in Leningrad where he made a number of speeches on the general theme of co-operation and friendship with the USSR. On 10 June, with Khrushchev and Mikoyan, he began a week-long tour of southern Russia. In Stalingrad, Tito greeted the welcoming crowd with the declaration that "in peace as in war, Yugoslavia must march shoulder to shoulder with the Soviet people toward the victory of socialism."

In their public statements, the Soviet leaders have acknowledged Tito's independent position and have treated his visit as a state-to-state affair. However, they have let pass no opportunity to stress the

compatibility of views. Bulganin's remark that the Yugoslav and Soviet peoples have enough strength to "chop off the hands" of those who try to disrupt their friendship gave rise to rumors of a mutual assistance pact, which the Yugoslavs have reportedly denied.

Despite the Soviet blandishments and his own generous expressions of friendly sentiments for the USSR, Tito has maintained the posture of a self-confident chief of an independent country negotiating on equal terms with the Soviet government. He has accepted the lavish welcome accorded him as being only his due.

A top member of Tito's delegation, Joze Vilfan, told Ambassador Bohlen on 6 June that the Yugoslavs are in general pleased with the frankness of the Soviet leaders in their talks. Vilfan, however, indicated that despite the similarity of views held by Moscow and Belgrade on many foreign policy issues, there were still areas of considerable difference. One such area of dispute probably is Soviet-Satellite relations.

25X1

KAGANOVICH RESIGNATION

The resignation of Lazar M. Kaganovich as chairman of the USSR State Committee on Labor and Wages continues the pattern of relieving members of the party presidium and first deputy premiers from direct administrative responsibilities. Kaganovich, whose political stature has apparently not diminished, probably will

devote himself to policy formulation and special problems. His successor, A. P. Volkov, who has been serving as government head in Moscow Oblast, is apparently a Khrushchev protege.

Of the other first deputy premiers--Mikoyan, Molotov, Pervukhin and Saburov--only Saburov retains a post involving

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

direct administrative responsibilities, that of chairman of the State Commission for Current Planning of the National Economy.

Kaganovich's Record

Kaganovich, though once one of Stalin's trusted henchmen and recently rumored to have opposed the stepping up of the anti-Stalin campaign, does not appear to be in political difficulties. He has long enjoyed an apparently amicable relationship with Khrushchev, having served as his mentor in Moscow in the 1930's when Khrushchev began his rise in party ranks. He was the first presidium member to come out publicly (early 1954) for Khrushchev when the latter began his climb to the top in the Soviet Union's collective leadership. In November 1955 he was chosen to deliver the traditional anniversary speech commemorating the founding of the Soviet regime.

He had been appointed chairman of the Labor and Wages Committee when that body was created in May 1955 to oversee wage reforms and establish a central office responsible for the wage and labor problems previously handled by individual ministries and the Central Council of Trade Unions. The committee undoubtedly assisted in working out the draft law on pensions announced on 8 May which embodied a fundamental revision and improvement in the entire pension system. The committee probably also participated in drafting the decree of 11 May 1956 abolishing criminal penalties for absenteeism and job changing.

The committee's primary task, however, has been to spearhead a far-reaching program



A.P. VOLKOV

to overhaul the entire structure of employee compensation in the USSR, the first major reappraisal since 1932. Since fulfillment of the Sixth Five-Year Plan productivity goals is dependent on a large increase in labor productivity, the committee's work in the whole field of labor productivity is of great importance.

Up to now, only limited progress has been made toward achievement of the committee's task. A fundamental revision of the wage and salary structure along lines called for by Soviet pronouncements is an exceedingly complex and time-consuming task. The details of such a program would necessarily have to be worked out industry by industry by technicians familiar with job requirements and working conditions in each industry.

The resignation of Kaganovich from the State Labor and Wages Committee may indicate that the basic policies and procedures to guide the program of wage and salary revision have been established and approved and that the remaining task is one primarily of technical implementation of

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

14 June 1956

these policies. Credibility is lent to this belief by the fact that Kaganovich has long been known as an economic "trouble-shooter." Once basic policies had been agreed upon, their carrying out could logically be left to men of lesser stature.

A. P. Volkov

Kaganovich's successor on the Labor and Wages Committee, A. P. Volkov, appears to be a protégé of Khrushchev. He rose through party ranks to become a secretary of the important

Moscow Oblast party committee under Khrushchev in 1950 and was promoted in 1952 to work as chairman of the Moscow Oblast executive committee. In April 1954 he assumed the auxiliary duties of chairman of the Council of the Union of the USSR Supreme Soviet.

The appointment of Volkov, who is 46, represents a promotion into the upper echelons of the government apparatus since it gives him ministerial status. (Prepared jointly with ORR)

25X1

25X6

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****14 June 1956**

25X6

ARAB-ISRAELI SITUATION

A report from UN truce observers that Israel is constructing bunkers in the Israeli-Syrian demilitarized zone near Banat Yacov is the only disquieting note in a relatively calm situation. The Israeli action, first noted in a Syrian complaint to the UN authorities on 7 June, would be a logical preliminary to resumption of work on the Banat Yacov canal to divert Jordan River water. The Syrians have repeatedly threatened to use force to prevent the Israelis from digging the canal in the zone.

Border incidents were at a minimum, most of those noted

occurring on the Israeli-Jordan frontier, and a substantial demobilization of Israeli military personnel and vehicles was noted during the week prior to 11 June.

Major diplomatic interest focused on the visit of Soviet foreign minister Shepilov to the area, where he is to arrive on 18 June. Both the Arabs and Israelis appear to feel that the visit may be the occasion for a Soviet pronouncement on their problems.

25X1

25X1

PAKISTAN-AFGHANISTAN

Pakistani president Mirza's long-heralded visit with Afghan king Zahir Shah in Kabul is scheduled to take place between 18 and 23 June against a background of four border incidents in the past two months.

Since Pakistan and Afghanistan have shown no sign of modifying their positions, there is little chance for an improvement in relations.

25X1

25X1

Armed clashes took place on the Afghan-Pakistani border

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****14 June 1956**

25X1

25X1

on 19 and 30 April and 5 and 20 May. The first was an ambush of a Pakistani patrol by Afghan tribesmen. The last three were apparently retaliation by Pakistani military forces and tribesmen.

Neither Afghanistan nor Pakistan appears to be making maximum propaganda capital out of the incidents, thereby suggesting that neither side wishes the Mirza-Zahir meeting to be canceled. However,

25X1

25X1

25X1

25X1

25X1

clashes

the new border

25X1

will almost certainly rule out any positive accomplishments during the visit.

25X1

25X1

SINGAPORE

Singapore's new chief minister, Lim Yew Hock of the Labor Front, probably will be able to maintain a fairly stable anti-Communist government during the next several months. Opposi-

sition parties are apparently reluctant either to assume government responsibility or face elections in the immediate future, and Lim stands a good chance of winning the support of

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

some non-Communist members of the Legislative Assembly who were bitterly opposed to former chief minister David Marshall. In addition, Lim will undoubtedly receive British support.

Lim assumed the office of chief minister on 8 June when Marshall resigned because of the failure of the recent London talks on Singapore self-government. No other changes were made in the Singapore Council of Ministers.

Lim's Plans

Lim has privately informed American officials that he hopes to reopen negotiations with the British in about four months. He says he would be willing to accept "something similar" to the last British offer of full internal self-government, but with the British retaining authority over internal security to the extent that it affected external defense and foreign affairs. Lim has also proposed that the Legislative Assembly be expanded by the addition of 25 elective seats, and that Singapore's integration with the Federation of Malaya take place in 1959.

The new chief minister says he intends to push an "anti-Communist" program, but cannot openly admit to such a plan. It is significant that

he has retained as minister of education Chee Swee Kee, who has increasingly incurred strong Communist criticism for his firm attitude toward Communist subversion in Singapore's Chinese schools and cultural organizations.

Opposition Moves

Lim's government, however, must contend with growing popular opposition, led by the Communist-manipulated People's Action Party (PAP). Although the PAP is still calling for new elections in six months, recent reports suggest that it actually prefers a longer delay in the interest of developing greater organizational and popular strength.

The role of former chief minister David Marshall is unclear, but he is likely to be a source of trouble. As president of the Labor Front, Marshall retains considerable influence, and his badly bruised ego may be exploitable by the Communists. He plans to visit Peiping soon, apparently as part of a campaign to cultivate Singapore's predominately Chinese population. He will brand Lim as a "stooge" of the Colonial Office if Lim succeeds in negotiating an agreement on Singapore self-government with the British.

25X1

25X1

**RIVAL CLAIMS
TO SOUTH CHINA SEA ISLANDS**

In recent weeks, an international controversy has arisen in connection with two groups of islands in the South China Sea, the Spratlys and the Paracels. Communist China, Nationalist China and South Vietnam all

claim the Paracels. The same three, plus France, have asserted sovereignty over the Spratlys and a Philippine citizen has claimed some of the islands for the Philippines.

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

Spratly Archipelago

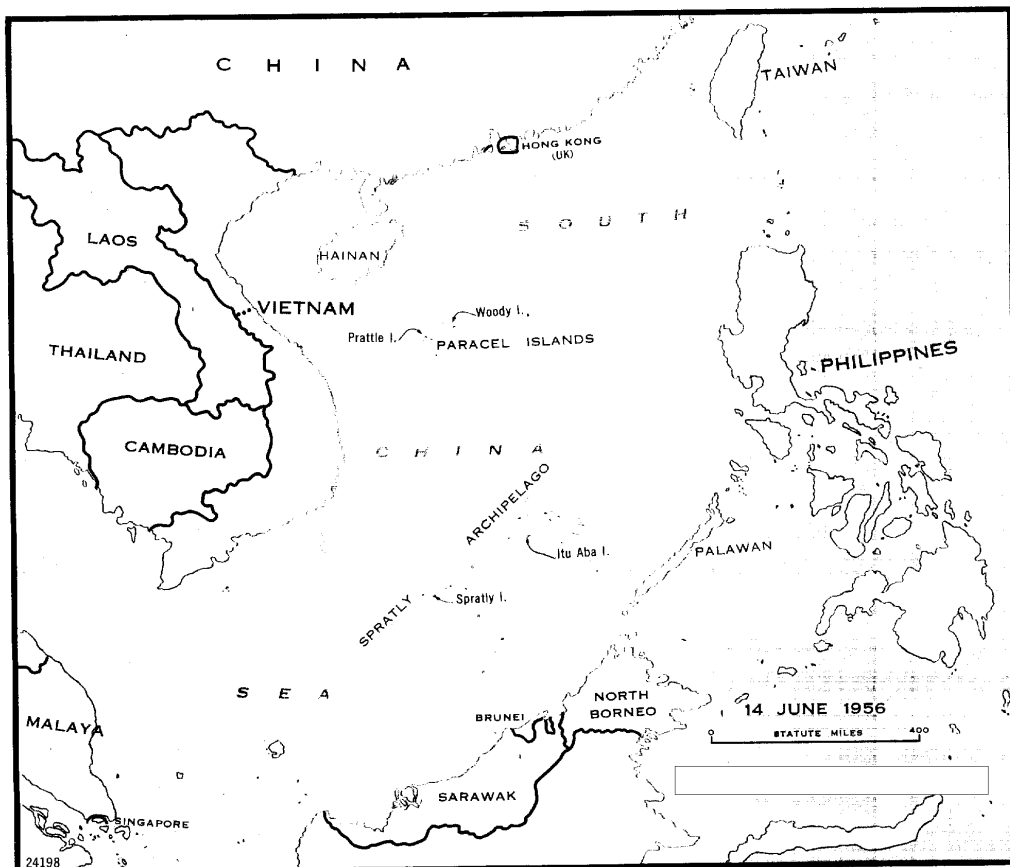
The dispute over the Spratly Archipelago--a vast expanse of reefs, cays and small islands--began on 21 May when Tomas Cloma, a Philippine citizen and the president of the privately operated Philippine Maritime Academy, staked a private claim to some of the islands.

Although the Philippine government has not officially supported this claim, the Chinese Nationalists protested vehemently and dispatched two destroyer escorts to the area to back up their contention that the islands had been Chinese for over 300 years. For a time it was feared that

landing parties from the task force would clash with armed cadets from Cloma's academy, but no incident occurred and the destroyer escorts are now returning to Taiwan.

The Chinese Communists challenged the Cloma claim on 29 May and asserted that encroachment on territory Communist China regards as its own would "absolutely not be tolerated." Since then, South Vietnam and France have claimed legal title to the Spratlys.

The largest island of the group, Itu Aba, is only three quarters of a mile long and one half mile wide, too small to support an airfield. The



25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

islands are economically worthless, except as fishing boat havens, but they possess some military value by virtue of their strategic location. The Japanese developed Itu Aba as a submarine base during World War II, and the Chinese Nationalists maintained a radio and meteorological station there from 1945 to 1950. In addition to these activities, Itu Aba and several of the larger islands would be valuable as bases for light naval craft, possibly for seaplanes, and as radar stations.

The Paracels

The Paracels--physically similar to the Spratly group--

are generally unsuitable for air or naval bases but do have value as potential meteorological and reconnaissance posts. The islands have rich guano deposits and since last August Chinese Communist civilian workers have been gathering guano on Woody Island. On 9 June an expedition sailed to Robert Island, presumably to investigate the guano deposits. This activity became the basis of a Vietnamese report of Chinese Communist troop landings in the Paracels and led President Diem to ask for a study as to whether the SEATO treaty should be invoked to rid the islands of Communists.

25X1

25X1

ARGENTINA

25X1

By using unusually drastic measures, the Argentine government succeeded in crushing the brief but violent "Peronist-Communist-Nationalist" rebellion of 9-10 June. While the government lifted martial law on 13 June, further violence could occur if resentment grows over the unprecedented executions and if the regime fails to demonstrate its good intentions regarding such rebel complaints as high living costs and the postponement of elections.

Intentions of Rebels

President Aramburu charged that the abortive plot called for simultaneous terroristic attacks on numerous top government officials and politicians, and had a "Communist head and Peronista body."

Nevertheless, the rebels' intention to replace the "oligarch-oriented" provisional government by a prolabor regime was clearly indicated in a rebel communiqué which called for the release of political prisoners, the return of control of trade unions to the workers, measures to fight the "enormous price increases," and general elections within 180 days without excluding any political party. The Peronista Party, which apparently still has more followers than any other party, was outlawed last March, and its leaders are barred from political or labor leadership.

Reaction to Measures

The National Consultative Junta, which is composed of representatives of various political parties and advises the

25X1
25X1**SECRET**

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

regime in lieu of the dissolved congress, issued a statement endorsing the government's defense of the "liberating revolution." Several political parties issued similar statements. Moreover, several generals, who had been retired last week from top army positions because of army dissension, offered their services to the government during the crisis, although this may have been personal insurance.

There seems, however, to be considerable uneasiness over officially denied rumors that "hundreds" had been executed under the martial law regulations which permitted any officer of the armed forces to judge "disturbers of the peace" summarily. Some 1,600 to 2,000 persons have been arrested for conspiracy, but the government announced on 13 June that only 45 persons had been executed during the four-day period of martial law and that no more executions would take place. Moreover, Vice President Rojas stated that the abortive revolt "does not change in any way our decision to call general elections as soon as possible."

Cabinet Reorganization

No cabinet changes resulted from the rebellion, but army and cabinet changes last week were in part related to the "de-Peronization" program, which has caused much discontent among both civilian and military personnel. The reorganization of the cabinet, which reduced it from 17 to 13 posts and introduced only one new face, had been under consideration earlier but was probably timed to draw attention from the changes in the top army command.

The treasury minister, who absorbed the controversial finance minister's post, announced on 9 June that the government's economic policies would continue to be guided by Economic Adviser Raul Prebisch's recommendations and earlier survey report. This includes continuing financial negotiations abroad. Some progress has been made toward funding debts to European nations amounting to over \$500,000,000, and a financial mission will depart for Washington on 16 June seeking loans, especially for transportation and power development.

25X1

SOVIET-JAPANESE RELATIONS

The Japanese government has extended the USSR's mission in Tokyo limited recognition as an official Soviet agency for fishery matters only. Mission Chief Sergei Tikhvinsky's acceptance of this status opens the way for Japanese fishermen, beginning 15 June, to obtain Soviet licenses for operation in waters restricted by the USSR, while it postpones settlement of the primary problem of diplomatic relations with Moscow.

Domestic Political Considerations

Strong pressure against a quick settlement with Moscow from the former Yoshida faction within the ruling Liberal-Democratic Party and the popular coolness to the idea of "selling territory for fish" appears to have persuaded the Hatoyama government to defer the Soviet relations issue until after the upper house election on 8 July. The cabinet on

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

5 June approved the fishery agreements Minister of Agriculture and Forestry Kono concluded in Moscow. Rather than precipitate a party split, it was decided to resume negotiations for a peace treaty by 31 July rather than establish diplomatic relations by an exchange of ambassadors without a formal treaty.

Japan's position for the resumed treaty talks, including demands for the southern Kurils, probably will remain unchanged until the Soviet stand is again assessed when the talks reopen. After the elections are over, however, the Hatoyama-Kono faction is likely to resume its efforts to arrange an early resumption of relations with the USSR. The USSR has already promised to return Shikotan and the Habomai Islands, to repatriate Soviet-held war prisoners, and to support Japan's admission to the UN. Should the USSR refuse to grant further concessions, the Hatoyama faction will be strengthened in its position that Japan accept these proposals.

Soviet Harassing Tactics

Meanwhile, the Soviet Union and its mission in Tokyo possess the means of harassing the Japanese government by pressures designed to display the advantages of official diplomatic relations. A present tactic arises over the licensing procedure for fishermen--the Japanese desire the mission to endorse Japanese licenses, while Tikhvinsky insists separate Soviet licenses must be issued. Soviet seizures of Japanese fishing vessels for infraction of restrictions and the ensuing negotiations would create further pressures on Tokyo.

Under the recently concluded Moscow agreements, Japan is committed to restore diplomatic relations with the USSR. Tokyo's problem is the timing and method for resuming relations, and most Japanese regard the early resumption of relations as probable.

25X1

25X1

**COMMUNIST CHINA
PURSUES VIGOROUS EXPORT PROGRAM**

Chinese Communist exports, which had increased only moderately since 1950, are estimated to have expanded by one third during 1955 to \$2 billion--well above the prewar volume.

The Chinese Communist export drive has not appreciably reduced the excess of imports over exports which has existed since 1950. However, Peiping's prime import requirements are met by the Soviet bloc without the necessity for corresponding exports within a short period.

In view of China's vast resources, the Soviet bloc willingly permits an imbalance in total trade, through such devices as the Soviet long-term loan of \$550,000,000 worth of military facilities and equipment granted to China in mid-1955.

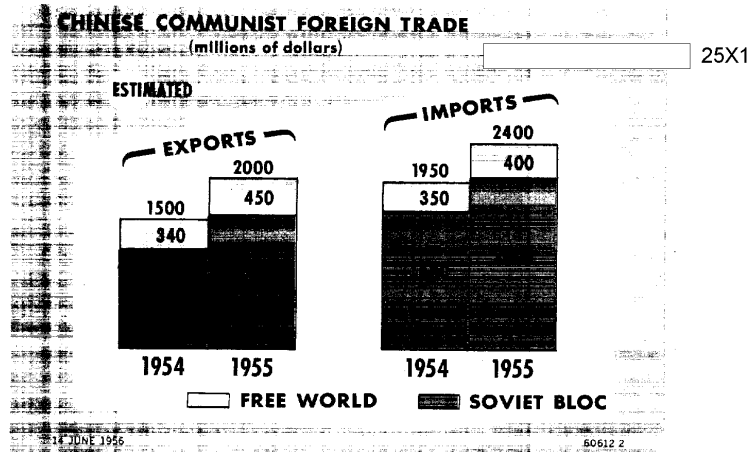
On the other hand, China's trade with the free world showed a favorable balance of \$50,000,000 in 1955. Communist China's recorded exports to almost all free world trading partners increased.

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

Peiping has built a large export surplus with Japan through increased shipments of food-stuffs and oilseeds. This surplus is apparently designed to exert pressure on Japan for increasing economic and political relations with Peiping and to cause Japan to seek a modification in the embargo against China.



The expansion of exports to other Asian and Near Eastern countries was more moderate but consisted largely of new exports of Chinese construction materials and light industrial products which Peiping began supplying in late 1954. These exports were made in part to substantiate China's claim that it

has made rapid progress toward industrialization under Communism, and can now provide some of the needs of undeveloped Asian countries for industrial goods. The growth of neutralist sentiment in Asia in 1955 can be traced in part to this program. (Prepared by ORR)

25X1

NORTH KOREAN FIVE-YEAR PLAN

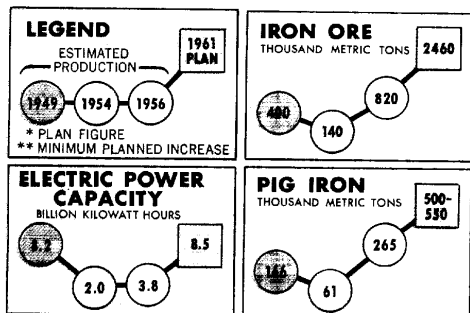
The ambitious targets of North Korea's first Five-Year Plan (1957-61) call for the restoration of over-all industrial production at least to the level reached under the Japanese. Achievement of this goal will require continuing support from the Sino-Soviet bloc.

The Five-Year Plan comes on the heels of a three-year program (1954-56) during which Korean industry--more than two thirds of which had been destroyed between 1950 and 1953--has been steadily reconstructed. The 1956 goal to reach again the 1949 level of output will have been achieved in most industries.

SECRET

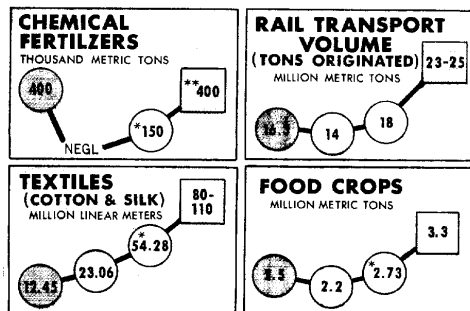
SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

**Industrial Goals**

Under the new plan some industries will have to construct extensive new facilities. Complete restoration of the hydroelectric system by 1961 will nearly meet the target established and will provide sufficient capacity to support other planned industrial growth. On the other hand, the goal set for the steel industry will require a major construction of new plant.

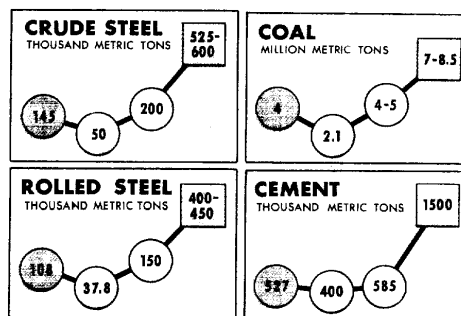
Success in the rehabilitation phase was directly dependent on Sino-Soviet bloc aid, which totals over \$600,000,000 for the 1954-56 period. North Korean budgets for 1954 and 1955 reveal that grants for those years equaled from 30 to 50 percent of the total expenditure for capital construction. However, the Soviet aid program expires in 1956 and only about \$125,000,000 worth of Chinese, Czech and East German aid is



60612-4

scheduled for delivery during the period of the Five-Year Plan.

Unless additional aid grants or credits are forthcoming, imports of equipment required for restoration and new construction under the plan will be impeded, since planned increases in exports are not sufficient to finance this program. Plans to increase production of nonferrous metals, North Korea's major export to the bloc, however, suggest that North Korea will in the long run improve its ability to finance its industrial reconstruction.

**Agricultural Goals**

Agricultural goals include self-sufficiency in grain production and the expansion of industrial crops. Despite unfavorable weather conditions, North Korea has been able to expand its grain production, and by use of increased irrigation and fertilizer, production of food crops may reach the 1961 target of about 3,300,000 tons--an increase of only 20 percent over estimated 1956 production.

The establishment of agricultural co-operatives, which lagged in 1955, will be pushed to completion during the

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

Five-Year Plan. A 20-percent increase in membership during the first two months of 1956 has brought over 60 percent of agricultural land into co-operatives. This program, in addition to providing better

control over the collection and distribution of crops, will enable the regime to allocate agricultural manpower, now unemployed during a part of the year, to support the industrial program.

(Prepared by ORR)

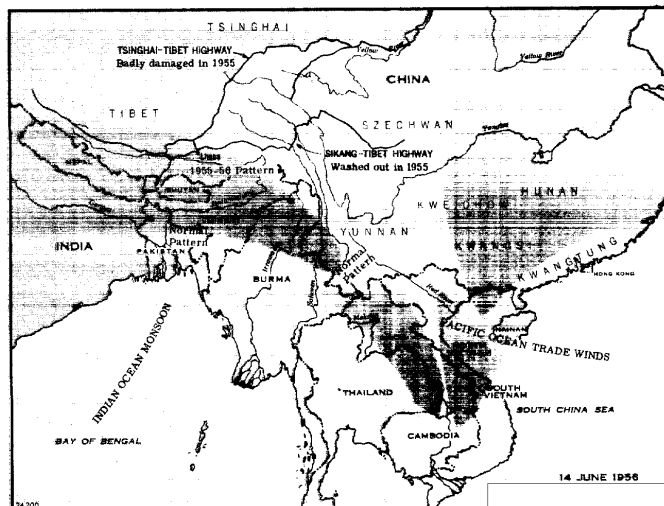
25X1

FREAK WEATHER HURTS CHINESE AND VIET MINH ECONOMIES

Freak weather may bring famine to North Vietnam and some portions of Communist China this year, as in 1955. During the last 18 months, rain which normally falls on the agricultural lands of Southeast Asia has fallen instead on the remote uplands of western China and Tibet,

The area which has suffered so heavily from abnormal weather extends from central India, Nepal and Tibet to Southeast Asia and South-Central China.

In 1955, Tibet's capital, Lhasa, which in an average year has very little rainfall, had an estimated 196 inches of rain.



25X1

causing drought in rice-producing areas. The run-off has brought disastrous floods to many of the areas afflicted by drought.

North Vietnam suffered from flood waters seven to ten times higher than the normal high-water level of the Red River system. The Tonkin Delta dike system was inadequate to contain the water volume and about 50 percent of the year's crops were lost.

The 1955 weather cycle now shows signs of repeating. A 50-year rainfall record was broken at Cherrapunji in northern India, which received 37.54 inches of rain in a 24-hour period early this month. There is already heavy flooding on the Irrawaddy River in northern Burma-- much earlier than usual.

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

North Vietnam, hit again by heavy floods, has recreated a national flood control organization and is employing its military units for emergency dike repairs.

While there are floods in some areas, other areas, including China's Kwangsi and Kwangtung Provinces as well as North Vietnam, are suffering from three years of drought. Furthermore, the rice-growing cycle has been upset by unprecedented cold weather in January.

It would seem, therefore, that agricultural production

shortages will occur again in 1956 in Southwest and South-Central China and North Vietnam.

The reported arrangement for Soviet purchase of 400,000 tons of Burmese rice annually over the next four years suggests that the Communists may be preparing an expanded food relief program for the Viet Minh. Even this increased level of assistance, however, would not compensate for another Viet Minh crop loss comparable to that of 1955's 1,000,000-ton loss, which resulted in a major famine.

(Prepared by ORR)

25X1

THE NEW BURMESE CABINET

The make-up of the new Burmese cabinet indicates that the Burma Socialist Party has strengthened its direct control of the government at the expense of supporters of outgoing Premier Nu. Barring serious trouble at home or in connection with Burma's foreign relations, the prospects are that U Nu is unlikely to resume the premiership within a year's time.

Although the Socialists constituted the strongest single element in the Anti-Fascist People's Freedom League, the government coalition, they preferred to operate behind the scenes during Nu's premiership. Their control of the government, however, was by no means absolute, as the energetic Nu often made policy decisions--some of which were directly counter

to Socialist interests--without prior party approval.

In the new cabinet, however, the Socialists are clearly in a dominant position. U Ba Swe, the new premier and chairman of the Socialist Party, is retaining the post of defense minister as well as assuming control of the Ministry of National Planning. Kyaw Nyein, who for all practical purposes has been co-leader of the Socialists, will serve as one of three deputy premiers and will head the newly created Ministry of the National Economy, a position which will presumably give him virtual overlordship of Burma's economy.

The balance of the posts held by Socialists appear to be about equally divided between the followers of Ba Swe

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

and Kyaw Nyein. While this division of responsibility assures the party firm control of the government, the apparently overlapping functions in the economic realm could be a serious source of friction between the two men, particularly in view of the rivalry which exists between them.

Another key ministry, that of foreign affairs, will continue to be headed by Sao Hkun Hkio, a Shan, as a sop to the ethnic minority groups. As in the past, however, he will undoubtedly serve merely as a front for the Socialist hierarchy which, with U Nu, has always determined Burmese foreign policy.

Individuals in the outgoing cabinet who were closely identified with Nu have been assigned to less important positions and will be unable

to exert much influence. A Socialist wheel horse has been named secretary general of the AFPFL, reportedly to make sure that Nu, in his capacity as the league's president, does not impinge on Socialist interests in carrying out his announced intention of revamping the AFPFL.

These developments point to an effort by the Socialists to limit Nu's influence while they assume overt direction of the government. In the absence of a serious crisis, they will probably oppose Nu's return after the one-year interval stipulated in the 5 June announcement of his resignation. Meanwhile, Ba Swe, in his first public speech on formally assuming office, promised to continue the policies established during his "elder brother U Nu's long and distinguished stewardship."

25X1

RAIL ACCESS TO WESTERN SOVIET ARCTIC IMPROVED

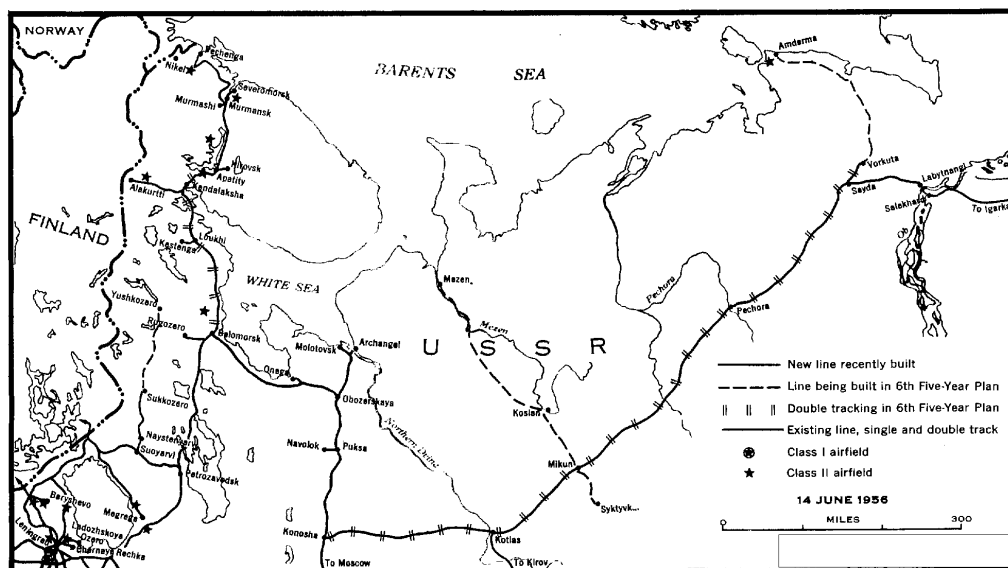
Work now under way to develop rail access to the western Soviet Arctic will increase the economic and strategic value of the area. On the Kola Peninsula, the line to Murmansk is scheduled to be double-tracked to within 100 miles of Murmansk, and a parallel line closer to the Finnish border is also under construction. Another new line scheduled for construction will facilitate the development of a new port in the Soviet Arctic with direct rail connections with the North Urals.

Last year, the Murmansk line was extended to Pechenga, providing the first rail

transportation to this port, as well as to the important nickel deposits at nearby Nikel and an important air base near Pechenga. Double-tracking the line to Murmansk as far as Apatity coincides with further development of important nickel, copper and aluminous ore sites and of fertilizer production facilities. It also will bring improved service to the important military installations in the Murmansk area as well as in the Kandalaksha area.

The new West Karelian line paralleling the one into Murmansk has not progressed very far. Upon completion of

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****14 June 1956**

25X1

this sector, according to the Soviet railway newspaper Gudok, work will continue northward to the Arctic circle and the mineral regions of the far north.

The new line to the White Sea from the North Urals, reported by Moscow radio on 25

May, apparently is the result of a decision to expand a shorter line to be constructed in the Sixth Five-Year Plan. Extended to the White Sea, the railroad would facilitate the development of a new port in the Soviet Arctic with direct rail connections to the North Urals via Kotlas and Kirov. (Prepared by ORR)

25X1

RAKOSI'S STATUS IN HUNGARY

The trip of Soviet party presidium and secretariat member Suslov to Budapest, where he arrived on 8 June, may result in a clarification of the status of Hungarian party first secretary Rakosi. Suslov will probably attend the Hungarian central committee meeting reportedly called to deal with the problem of Hungarian party factionalism. This has become increasingly serious since the Soviet party congress. In an effort to conciliate the anti-Rakosi faction, Suslov may limit Rakosi's personal power,

or even withdraw the USSR's support of the Hungarian party chief.

Soviet Role

During the past few months the Soviet Union has played a major part in Hungarian politics by its consistent endorsement of Rakosi's leadership despite the opposition of a significant--if not major--part of the Hungarian party elite, including the central committee. A primary motivation for the Soviet support of Rakosi is the

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

14 June 1956

apparent lack of a suitable replacement. However, Rakosi's continued inability to cope with the factional problem may have created a policy dilemma for the Soviet leaders. Suslov's trip may thus be to determine the actual state of Hungarian party factionalism and to clear up the confusion and speculation caused by the Soviet party congress.

At the central committee meeting, Suslov probably will have the power to direct political adjustments designed to quell the factional fight. Suslov is believed to be responsible for Soviet relations with East European Communist parties and reportedly sat in on the April plenum meeting of the Bulgarian central committee which criticized and demoted former premier Chervenkov.

The removal of Rakosi as a sop to Tito--timed to coincide with his visit to Moscow--and as a "cure-all" for the factional problem is a distinct possibility. On the other hand, Soviet leaders appear to hold shrewd tactician Rakosi, who has been a prominent figure in world Communism for more than 30 years, in high esteem and may seek an accommodation in the factional struggle which would permit Rakosi's retention.

Rather than remove him and possibly create even more problems, an effort may be made to create a more realistic collective leadership by limiting Rakosi's authority and giving "opposition" elements a stronger voice. Even if such a maneuver ultimately leads to the 64-year-old Rakosi's ouster or "retirement," the means for an easier

transition of power would be established.

Nature Of Opposition

Opposition to Rakosi has been increasing and coalescing in recent months around a moderate group of younger, more "national-type" Communists within the party leadership--including the central committee--and has posed a real threat to Rakosi's continued ability to control the party. This group is reported headed by politburo members Kovacs and Szalai, Colonel General Nogradi (the head of Agitprop), and local secretary Janos Kadar, who had been ousted from the politburo in 1950 in the wake of the Rajk "Titoist" trial--subsequently disavowed and blamed on ex-police chief Gabor Peter.

An American legation source reports that Marton Horvath, editor of the official party newspaper, Szabad Nep, is now mediating between Kadar, who is spokesman for the demands of the moderate wing for a stronger voice in the direction of party and Hungarian affairs, and Rakosi. The source reports that these negotiations, which presumably will be settled at the central committee meeting, will result in Kadar's return to the politburo. A report from the Yugoslav minister in Budapest which states that the "right" faction, headed by several high-ranking central committee members, is demanding "some new blood" in the politburo, tends to confirm the existence of such negotiations. 25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

**POLES CLAIM INCREASING
INDEPENDENCE FROM USSR**

25X1

A number of Polish officials and journalists were claiming in late May that Poland might eventually emerge as an independent state, allied with the Soviet bloc but able to deal freely with the Western world.

These views are probably being circulated to create the impression abroad that Warsaw is adopting a policy of liberalization and independence of action. Poland, moreover, probably hopes to expand commercial and cultural relations with the West. Hence, perhaps the emphasis by some of the Poles on the country's "desperate" economic situation and the lack of aid from the USSR.

Deputy Foreign Minister Winiewicz told a Western official in late May that Poland was acquiring more independence of action and that the Poles could be useful to the West as a liaison with other countries, such as China and the Soviet Union.

Winiewicz said "some people" in Poland, worried about where the criticism would lead, were told by "others of equally high rank" that it could be stopped only by means of police terror, which, Winiewicz said, is ended.

25X1

Despite this optimism, open criticism of the regime had generally come to a stop two or three weeks before these statements were made. There may be many Poles, some in high places, however, who are optimistic about the chances of obtaining greater independence from the Kremlin.

(Concurred in by ORR)

25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

14 June 1956

THE ITALIAN COMMUNISTS
AFTER THE ELECTIONS

The Italian Communists' losses to their Nenni Socialist allies in the 27-28 May local elections have further complicated the relationship between the two parties and have left the Communists without a clear policy to overcome the handicap of their isolated position.

The American embassy in Rome believes that the absence of a joint statement following Communist leader Togliatti's meeting with Socialist chief Nenni on 2 June indicates they have not yet reached an understanding on future policy. The embassy comments that in their first published reactions to the elections, the two displayed a blend of "close co-operation and mutual insult."

Togliatti's Position

Togliatti's first published comment was an interview for the Paris L'Humanité and the Warsaw Trybuna Ludu on 6 June--possibly, the embassy feels, to remind the Italian left that the foreign press still considers Togliatti a major figure in international Communism despite his party's present difficulties. In this interview he apologized for the Communist losses and attributed the Socialist Party's gains "mostly" to its last-minute alliance with leftist splinter groups, although he admitted the gains also came from "other sources."

He carefully talked around the possibility of a future

alliance between Nenni and the government parties. Commenting on negotiations between the Democratic Socialists and Nenni's party, Togliatti offered general approval of collaboration between "different sectors of the workers' movement" but warned that it must not lead to "new bitterness and new splits."

Nenni's Views

Nenni, in a 7 June speech to his party's central committee, three times used a phrase which, according to the embassy, could mean either "there is no question of breaking" or "there is nothing to break" in connection with his party's unity-of-action pact with the Communists.

He said the pact is an "historical document of the workers' movement" which does not reflect either the cold war or the present relaxation of international tension. What is necessary instead is "to develop the thaw which is assisting the autonomous affirmation of the two parties according to their individual characteristics and their vocation." He declared also that his party is prepared to form local governments with Christian Democrats and certain other center parties "where larger unity to the left is impossible" (i.e., where the center parties exclude the participation of the Communists).

25X1

* * *

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

PART III**PATTERNS AND PERSPECTIVES****THE PINEAU VISIT TO WASHINGTON
AND THE PROSPECTS FOR THE MOLLET GOVERNMENT**

France's Foreign Minister Pineau will arrive in Washington on 18 June in search of American backing for his government's policy on Algeria, on future relations between East and West, and on disarmament. Pineau is anxious to strengthen the domestic position of the Mollet government, whose policies have disillusioned many of its followers and which is becoming increasingly dependent on the right.

North Africa

The Algerian dilemma emphasizes Premier Mollet's precarious political position. His minority government cannot afford to alienate the right-center and leave itself entirely dependent on Communist support in parliament on such a key issue.

On the other hand, the premier is threatened with revolt in his own Socialist Party, where there is dissatisfaction over the tough Algerian policy Mollet has felt obliged to follow. Emphasis on military pacification before negotiations has aroused such opposition on the left that the Communists, while still striving for a popular front, have been able to oppose the government on this issue without undermining entirely their protestations of general support. Their attacks on Mollet's Algerian policy have had considerable appeal in Socialist ranks, despite the formal endorsement Mollet won from the Socialist National Council on 10 June.



FOREIGN MINISTER PINEAU

Pineau probably will link Algeria with such problems as the Middle East, where Paris views the Arab-Israeli question largely in terms of Egypt's increasing involvement in French North African affairs. The French government tends to believe that its allies do not give sufficient weight to France's need to stop the further build-up of Arab strength and, from this starting point, argues that the West is basically unsympathetic to France's North African position.

The United States bears the brunt of the charge that the West is failing to lend all-out support to France on Algeria. France has long felt that "American anti-colonialism" has been a major contributor to its problems in the French Union, and Frenchmen of all political tints point to South Vietnam as irrefutable evidence that the United States stands ready to replace France where French influence declines.

As the Algerian situation has worsened, the search for a scapegoat has brought a marked increase in anti-American statements and actions by both the press and public officials. Stories of American arms in rebel hands have been played up, and Robert Lacoste, French minister residing in Algeria, has publicly stigmatized Irving Brown, the AFL-CIO representative in Europe, as the "master corrupter" of French control over North African labor. Pineau will certainly express

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

French irritation over Washington's willingness to establish immediate diplomatic relations with Tunisia.

Interest in East-West Detente

Pineau's approach to many topics of discussion will be based on his belief that the East-West detente can be enlarged by positive Western policy. While Mollet and Pineau, during their mid-May visit to Moscow, were disillusioned by the unbending attitude of Soviet leaders, Pineau adheres to his view of the 20th Party Congress as a "revolution." Pineau sees arms reduction as a major step toward strengthening the detente, and continues to make disarmament under UN auspices a major aspect of French foreign policy. He probably hopes to obtain American concessions that he can use as bargaining points in further approaches to the USSR.

If unable to obtain the equalization of CHINCOM and COCOM it has long urged, France will probably increase requests for exceptions. Pineau has also been largely responsible for a stepped-up French effort to increase contacts with the Satellites, particularly Poland and Czechoslovakia.

Disarmament

The Mollet government has called for a new emphasis in NATO to play down the purely military defense aspects of the alliance. Both Mollet and Pineau have criticized American policy as being too inflexible in this regard and have urged a new effort to aid industrially undeveloped areas. The foreign minister has proposed a plan for administering such a program through the UN and appears

to regard it as a major personal contribution to peace. Pineau will emphasize it on his projected Washington agenda.

Domestic Difficulties

Part of Pineau's search for American concessions on international issues springs from a desire for some success to compensate for the Mollet government's growing domestic difficulties. The Socialist Party's prime interest has been in a program of social and economic reform in France. From the time Mollet took office on 31 January, however, the increased drain in money and manpower for North Africa has severely limited the effort and funds available for reforms. On this question of major interest to the left, Mollet has managed to extend the paid-vacation period, reduce wage differentials, and increase old-age pensions, but wage hikes and the increased investment program have been held up.

Contributing to Mollet's difficulties in pressing reforms expected by his rank-and-file support is a general slowdown in the economic advancement of the past two years and concern over the possibility of new inflation. Continued expansion has, of course, become more difficult as the economy has approached peak productivity with existing equipment; and the situation has been aggravated by the extremely bad winter and the added demands of Algeria on both manpower and commodities. France's trade deficit has increased and, since January, its balance with the European Payments Union has been generally unfavorable. As a result, business confidence has slipped and since the January election, the value of the black-market dollar has remained 30 to 40 francs above the 1955 peak.

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

Mollet may find his maneuverability restricted since the right-center appears to be regaining the confidence it lost as a result of the elections. It has already forced Mollet to water down his domestic and North African program, and its policies may eventually force the premier to broaden his coalition. The Popular Republicans, who have consistently supported him, would jump at an offer to join the government. Such a move would probably place most of Mendes-France's Radical Socialist followers in active opposition, however, and increase the vulnerability of Mollet's Socialist Party to Communist undermining of its support.

Prospects

Mollet's victories in confidence votes on 6 and 8 June on general policy and old-age benefits increased his

chances of staying in power through the summer, but his economic and financial policies are potentially the issues which are most capable of disrupting the government's grudging right-center support. They are also a basically unreconciled difference between Mollet and his Radical partners in the coalition.

If Pineau could pull off a spectacular foreign policy coup, the government could hope to build up sufficient prestige to side-step this threat when it requests new income taxes to produce the \$285,000,000 required for Algeria. While it may be able to use its special decree powers to avoid a full-scale debate on this issue before the assembly recesses, presumably in mid-July, the deputies may balk at this new tax on top of those already levied this session.

25X1

* * *

ORGANIZATIONAL CHANGES IN THE SOVIET GOVERNMENT

The Soviet government has reorganized several ministries and transferred direct administrative responsibility for a number of enterprises from Moscow to ministries in the union republics. These changes, which increase the responsibility of republic administrators for carrying out national economic plans, are intended to improve efficiency and raise morale among local managers. Some of the central ministries will be freed from detailed operational activities, and thus can concentrate on planning and control of plan implementation.

Announcement of the changes was made in a decree issued on 2 June. Three union-level ministries (Motor Transport and Highways, River Fleet, and Justice) were abolished and their enterprises and functions transferred to the republics. Some of the enterprises of a number of other USSR ministries, such as Food Products, Fish, Health, Building Materials and Light Industry, were also transferred to the republics. The Ministries of Light Industry and Textile Industry were merged and the Ministry of Agricultural Procurement was changed into a Ministry of Grain Products.

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****14 June 1956**

Some of the changes took place before the announcement. The Ministry of Agricultural Procurement, for example, as early as February 1956 had become, in effect, a Ministry of Grain Products. Many of the enterprises listed for transfer may have been included in the "over 11,000" which Bulganin stated in February had already been transferred to republic jurisdiction.

The scope of economic policy-making by the union republics has not been significantly broadened. Determination of economic goals and integrated plans remains the prerogative of the all-Union policy organs, which also retain authority for material and equipment supply, evolution of general policy, and technical innovation. As conceived by the collective leadership, the structural changes will "facilitate a more efficient industrial management, a better use of available reserves for the increasing of production output, and a fuller satisfaction of the national economic requirements."

Justice Ministry

With the abolition of the USSR Ministry of Justice, the responsibility for court administration is transferred to the union republics.

The principal functions assumed by republic Ministries

CHANGES INVOLVING THE SOVIET MINISTERIAL STRUCTURE

<u>Former Ministry of the USSR</u>	<u>Nature of Change</u>
Light Industry (U-R)	Merged; becoming Ministry of Light Industry (U-R).
Textile Industry (U-R)	
Agricultural Procurement (A-U)	Reorganized; becoming Ministry of Grain Products (U-R).
Automobile Transport and Highways (U-R)	Abolished; from certain of its elements the new Main Administration of Road Construction is established, attached to the USSR Council of Ministers.
River Fleet (A-U)	Abolished; a republican Ministry of the River Fleet is established in the RSFSR, and, where necessary, appropriate administrations are attached to the Councils of Ministers of the republics.
Justice (U-R)	Abolished; its functions transferred to republic ministries. A legal commission attached to the USSR Council of Ministers is established to codify and systematize Soviet legislation.

NOTE: A-U = All-Union Ministry
U-R = Union-Republic Ministry

14 JUNE 1956

25X1

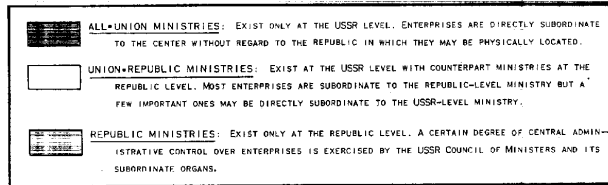
of Justice will be in the education and assignment of lawyers and court workers and the review of directives promulgated by lower echelons of government. Provincial and local justice directorates formerly subordinate directly to Moscow are now to report on these matters to their republic capitals. Responsibility for codification of the laws has apparently been assumed by the Commission for Systematization and Codification of Legislation formed on the abolition of the Justice Ministry. Presumably the new commission is charged with drafting an all-Union code of laws, publication of which would facilitate the uniform administration of justice throughout the USSR.

While decisions affecting the organization and administration of courts are now made at the republic level, Moscow retains its strict control over matters of indictment,

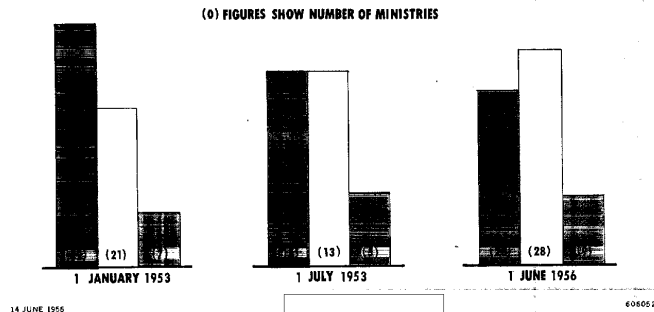
SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****14 June 1956**

prosecution, verdicts and appeals through the recently increased supervisory powers of the prosecutor general, who is charged with overseeing that Soviet laws are properly executed.

CHANGING ADMINISTRATIVE STRUCTURE OF SOVIET UNION**Administrative Decentralization**

The formal announcement of the changes was designed to dramatize the trend toward decentralization which began early in 1954. The Soviet leaders have apparently concluded that it is desirable to grant more authority to the republics in the handling of much of the detailed operational decision-making previously referred to Moscow, thereby encouraging and stimulating the initiative of local officials.



25X1

These measures may facilitate a more rational utilization of local resources. Several of the activities involved--food processing and procurement, building materials, health, trade and road transport--are closely related to the local needs for uninterrupted operations in time of emergency. The effect of the decree will also depend on the extent to which the ministries involved delegate more power to administrative subdivisions outside of Moscow.

CHANGES INVOLVING THE SUBORDINATION OF ENTERPRISES

Enterprises directly subordinate to the listed union-republic ministries of the USSR are transferred to the appropriate counterpart ministry in the republic of the area where they were physically located on 1 January 1956. Enterprises specifically EXEMPTED from this transfer and remaining directly subordinate to the appropriate USSR ministry are also listed.

Ministry	Activities Exempted
Food Industry	Production of machines and their components for these ministries.
Meat and Dairy Industry	
Light Industry	
Light Industry	Production of artificial fiber and leather, and industrial fabrics.
Construction Materials Industry	Production of cement, slate, asbestos, and mica.
Paper and Wood Processing	Production of cellulose, paper, and hydrolysis-spirits.
Health	"The Medical Industry"
Fish Industry	None.
State Farms	
Internal Trade	

14 JUNE 1956

Implementation of this decree will result in a further reduction of central administrative personnel. The decree calls for directing these workers "mainly to production work." They will presumably augment the labor reserve needed for fulfillment of the goals of the Sixth Five-Year Plan.

25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****14 June 1956**

Further moves toward decentralization can be expected. The decree specifically enjoins the Councils of Ministers of the republics to submit proposals for the further expansion of their powers. In addition, there remain functions of union-level ministries relatively unaffected by this decree that the USSR might profitably turn over to republic-level administration.

Despite these changes, the Soviet administrative system remains highly centralized. The changing climate regarding the exercise of initiative at lower levels, however, may go a long way toward combating the apathy and corruption that was so rampant during Stalin's last years. (Prepared jointly with ORR)

25X1

* * *

THE SITUATION IN PAKISTAN

The present struggle for power in Pakistan points up the country's chronic political instability. This situation, the malfunctioning of the economy, and quarrels with India and Afghanistan not only reduce the value of Karachi's membership in the British Commonwealth, SEATO, and the Baghdad pact, but have caused the Mirza government to accept closer ties with the Sino-Soviet bloc.

Political Instability

Political conditions in Pakistan have become more and more unstable since the assassination of Prime Minister Liaquat Ali Khan in October 1951. Liaquat, an efficient administrator, had kept a tight

rein on the Moslem League, the political party which founded Pakistan in 1947 and was--until Liaquat's death--the only significant political force in Pakistan.



President Iskander Mirza

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

The country's present leaders--headed by such former civil servants as President Mirza and Prime Minister Chaudhri Mohammad Ali, and General Ayub, a professional army officer--belong to a class which has traditionally been impatient with politics and politicians and does not believe the people of Pakistan are yet capable of running their own affairs. These leaders' attempts to use the Moslem League as a political arm of the government have



Prime Minister
Chaudhri Mohammad Ali

been unsuccessful, and the League itself has lost its position as Pakistan's dominant political force.

The result is a badly fragmented political structure which has divided into separate alignments in East and West Pakistan. In order to obtain legislative support, Mirza and Chaudhri have been forced to develop alliances with the newly founded Republican Party in West Pakistan and the irresponsible United Front in East Pakistan.

The right of these patchwork alliances to rule the provinces has now been challenged by the resurgent remnants

of the Moslem League in West Pakistan and an opposition coalition centered on the Awami League in East Pakistan. The Republicans, by influence and intimidation, have managed to weather the challenge--at least temporarily--in West Pakistan, but in East Pakistan, Mirza had to resort to "direct rule" on 26 May to get the provincial budget authorized. Restoration of parliamentary government to East Pakistan on 1 June leaves the struggle for power within the province unresolved. Mirza will still have to try to patch up some new balance of power there.

All of this will almost inevitably have repercussions on the central government, a coalition of the Moslem League and the United Front, and some changes in the national leadership are likely in the next few months. The most probable appears to be Chaudhri's replacement as prime minister. Possible successors are H. S. Suhrawardy, national leader of the Awami League, Amjad Ali, present finance minister, and Mustaq Gurmani, West Pakistani governor. Chaudhri's present illness and several postponements of his scheduled trip to Communist China appear to have paved the way for such a change.

Economic Problems

A measure of Pakistan's malfunctioning economy is provided by the present near-famine conditions in East Pakistan and the probable beginning of a food shortage in West Pakistan. Although Pakistan was a food surplus area before partition from India, food shortages have now come to be an annual occurrence.

The national government has gotten into the habit in recent years of responding to food crises by turning to the United States for emergency assistance, and Karachi's

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

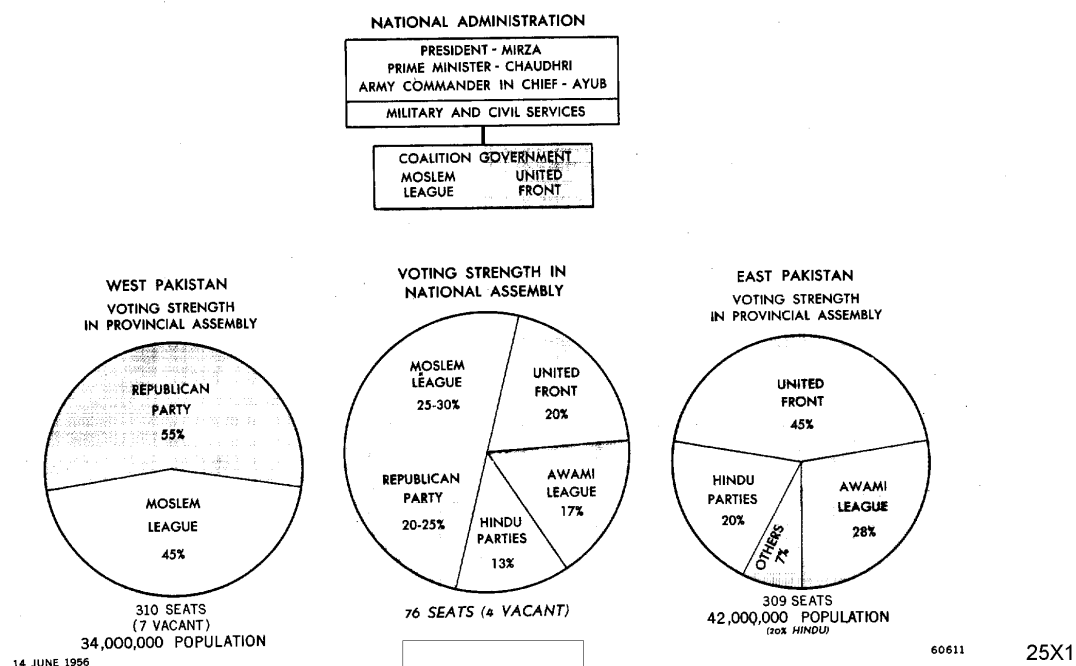
requests to meet the present problem now total 900,000 tons of food grains.

International Problems

Karachi is insisting on reopening the Kashmir issue in the United Nations in July, which will be just after Indian prime minister Nehru's visit to the United States. Prime Minister Chaudhri has also requested the United States to bring pressure on Nehru during his visit to agree to an amicable settlement on Kashmir. If nothing else, Pakistan's aggressiveness will probably provoke intensification of the Indian press campaign against Western military alliances in Asia, which includes the charge that the United States has established air bases in Pakistani-occupied Kashmir.

Pakistan's insistence that both the SEATO and Baghdad pact councils in their recent meetings in Karachi and Tehran include statements on Kashmir in their communiqués, and that the SEATO council also support Pakistan on the Pushtoonistan issue, has resulted in vigorous protests from India and Afghanistan, both of which have in the past expressed "fears" that the two US-supported pacts were directed against them.

A rash of Pakistani-Indian border clashes in February and March, as well as incidents on the Pakistani-Afghan border in April and May, have lent substance to Indian and Afghan fears that Pakistan's American-supplied military equipment may some day be used against them.

PAKISTAN: ESTIMATED DIVISIONS OF POLITICAL FORCES**SECRET**

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

14 June 1956

Pakistan in turn has increased pressure for speeded-up deliveries of US arms, and Prime Minister Chaudhri has candidly told the American ambassador in Karachi that he needed earlier delivery of a promised light-bomber squadron in view of India's probable acquisition of new British Canberra bombers. President Mirza is reported to have condemned the United States for refusing to identify itself fully with Pakistan in its quest for regional security against India and Afghanistan. He has also protested American investigation of the possible use of US-supplied weapons in the recent border clashes.

Contacts With Sino-Soviet Bloc

Pakistan's domestic problems and its regional squabbles have created a situation in which Karachi has found it expedient to accept closer ties with the USSR and Communist China. On 31 May, a delegation arrived in Karachi from the USSR to negotiate a Pakistani-Soviet trade agreement and Mirza himself on 16 May publicly called for American recognition of Communist China.

Pakistan's economic problems have also made it difficult for the government to resist other "trade and aid" overtures from the bloc. On 23 May, Pakistan "gratefully accepted" a free gift of 40,000 tons of food grain from the USSR. The unreliability of coal imports from India has caused Karachi to agree to the purchase of more than 400,000 tons of coal from Communist China in 1956. The need to dispose of Pakistan's cotton crop has also prompted the foreign minister to request American approval to export 412,000 bales of cotton to Communist China in 1956. This is double last year's exports.

At present, there seems little likelihood that Pakistan will succeed in improving its political and economic stability, and settling its regional quarrels in the foreseeable future. As long as they remain, the country's potentially great effectiveness as an ally of the West will remain limited, despite American economic assistance of more than \$250,000,000 to date and a planned military aid program of more than \$400,000,000 through 1958.

25X1

* * *

WEST GERMAN ECONOMIC ACTIVITIES IN ASIA

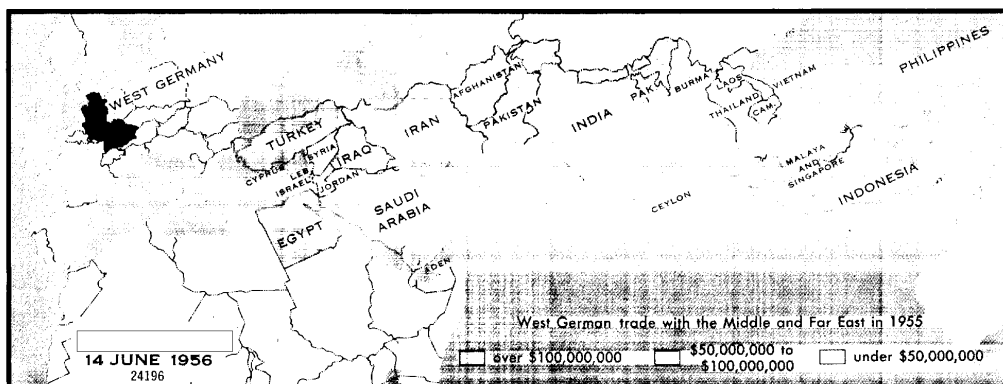
West Germany's economic interest in the industrially undeveloped areas has focused to a considerable extent on long-term investment projects in the Middle East, South and Southeast Asia. Owing partly to the scarcity of investment capital at home and partly to the fear of Soviet competition, German industrialists have in

recent months sought financial aid from Bonn and promoted plans for pooling Western financial resources for development projects in these areas.

Importance to the Economy

West Germany's postwar recovery has been based to a large degree on foreign trade,

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****14 June 1956**

with exports in 1955 accounting for 16 percent of the gross national product. While 59 percent of these exports went to Western Europe, German industry has contended that its prosperity really depends on its ability to find outlets outside of Europe.

The German export drive, strong enough everywhere to concern Britain and other industrial trading nations, has been particularly marked in the free world area extending from Libya and Greece to the Philippines. In this vast arc of industrially undeveloped countries, West Germany's exports for the first ten months of 1955 amounted to \$631,900,000 and its imports to \$669,200,000 --figures representing 11.5 percent of the Federal Republic's total exports and 12.7 percent of its imports.

In Turkey, West Germany now holds first place in both exports and imports, while in the Near East and South Asia generally its trade is exceeded only by that of Great Britain and the United States. Other important German trading partners include Greece, Iran, Pakistan, India and Indonesia.

Nature of the Interest

West Germany's interest in the area focuses more on

future possibilities than on present trade levels. German exports to the area have tended to shift from consumer goods to production and investment goods--principally machinery--in line with the trend toward industrialization of many of these countries and their growing interest in technical assistance from more advanced nations.

In India, for example, a consortium headed by Krupp is building steel works, while other German firms are engaged in developmental projects including rolling mills, bridges, roads and dikes. West German firms are building a dam and power plant in Ceylon. The 1955 trade agreements with India, Pakistan and Ceylon include provision for technical assistance and training of foreign nationals in the Federal Republic.

Under the 1953 economic co-operation agreement with Greece, German firms erected a cracking plant, nickel ore and aluminum plants. In 1954 other German firms participated in a \$20,000,000 project to open lignite mines and erect a processing and power plant. The 1953 agreement was renewed and extended in 1955 to allow for greater German participation in Greece's economic reconstruction program.

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

14 June 1956

In Turkey, German firms are scheduled to build an electric power plant, several cement plants, and factories for sugar and nitrogen. Bonn's 1955 economic agreement with Lebanon provided for equipment and technical assistance for the development of agriculture, industry and transportation. In 1955 Germany also signed an agreement with Yemen allowing for the exploitation of oil resources.

Shortage of Capital

Though well equipped to provide the industrially undeveloped areas with technical know-how, West German industrialists find their investment possibilities limited by the scarcity of capital. There has accordingly been much interest in plans for financial aid from the Bonn government, and also for a pooling of Western financial resources.

Fritz Berg, the president of the Federation of German Industry, emphasized this situation in an 8-point program of German participation in economic development which he proposed for German industry overseas after a visit to

the Southeast Asian countries early this year. Berg suggested a government-supported bank to enable German industry to compete in development projects. Probably having in mind recent cases in which German companies lost contracts in Afghanistan to the USSR, Berg contended that the Germans must give more liberal terms. He pointed out that the Soviet bloc, for political reasons, offers loans up to 10 and 20 years at 2.5 percent interest.

Berg warned German industry against underestimating Orbit economic activity in Asia, and insisted that West Germany should capitalize on the good will it now enjoys to get in on the ground floor of Asiatic development. He declared that once the best industrial projects have been allocated, there will not be much left.

Other German businessmen are seeking the indirect financial backing of the Western nations as a group. One such plan was outlined to American officials early this spring by a representative of the Ruhr industrialist, Alfred Krupp.

Known as Krupp's Point Four and-a-Half Program for the Middle East, South Asia and Africa, the plan envisions large financial contributions from several Western countries, among them the United States and West Germany, to make possible low-interest-bearing credits to private industry which would then build up underdeveloped areas.

This program apparently captured the interest of Chancellor Adenauer, who may discuss it during his present Washington visit.

WEST GERMAN EXPORTS TO, AND IMPORTS FROM, THE MIDDLE AND FAR EAST

	1936		1955	
	IMPORTS	EXPORTS	IMPORTS	EXPORTS
INDIA	\$ 57,300,000	\$ 49,000,000	\$ 62,667,000	\$ 137,803,000
TURKEY	47,600,000	31,600,000	65,916,000	120,106,000
PAKISTAN ▲			132,728,000	28,376,000
INDONESIA	45,508,000	15,554,000	84,468,000	49,408,000
MALAYA-SINGAPORE	20,800,000	7,200,000	77,782,000	20,832,000
EGYPT	14,800,000	17,200,000	31,405,000	53,158,000
SAUDI ARABIA	*	**	60,454,000	10,728,000
IRAQ			56,044,000	19,949,000
IRAN	9,200,000	12,000,000	25,950,000	41,248,000
ISRAEL	800,000	6,800,000	1,942,000	61,454,000
SYRIA			9,183,000	20,301,000
PHILIPPINES	4,245,000	4,110,000	25,095,000	1,155,000
THAILAND	889,000	2,620,000	5,085,000	19,519,000
CEYLON	3,213,000	1,198,000	18,528,000	5,804,000
CYPRUS			19,354,000	4,962,000
LEBANON	800,000	2,000,000	822,000	16,867,000
BURMA ▲			3,503,000	10,968,000
JORDAN	*	**	8,411,000	5,258,000
AFGHANISTAN			4,662,000	3,901,000
VIETNAM			943,000	4,612,000
CAMBODIA			3,385,000	678,000
ADEN			1,136,000	2,961,000
LAOS			5,000	27,000
INDOCHINA	*	800,000		

▲ INCLUDED UNDER INDIA IN 1936
● INCLUDED UNDER INDOCHINA IN 1936

* UNDER \$800,000
** UNDER \$2,000,000

14 JUNE 1956

60611 10

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****14 June 1956**

The plan is avowedly one which will bring profitable new contracts to Krupp, and is not intended to substitute for other Western programs. Krupp, who also wants to develop trade with the Orbit, has explicitly denied that his plan is directed against the Soviet "ruble offensive" in the Middle East.

Fears of Soviet Competition

There is, nevertheless, considerable concern in other West German quarters about Soviet penetration of the industrially undeveloped areas. Besides the alarm expressed by industrialists over cases in which West Germans have lost out to Soviet competition, German officials view recent Middle East developments gloomily. They credit the USSR with considerable success in penetrating the area through propaganda and arms shipments and creating the impression that economic aid would be

furnished with no political strings attached.

At the 4-5 May meeting of the North Atlantic Council, Foreign Minister von Brentano was one of those urging that NATO concern itself with Soviet economic penetration of the industrially undeveloped areas. He supported the establishment of a "mutual fund" under Article II of the North Atlantic Treaty, to finance aid to these areas.

A source of particular concern to the Federal Republic is the steady efforts of the East Germans to establish strong trade ties with industrially undeveloped countries. West Germans point to the growing number of trade agreements signed by East Germany, to the opening of East German commercial offices in the Middle East, and to the favorable reception which East German trade minister Rau received on his recent swing through the eastern Mediterranean area.

25X1

* * *

SECRET

Page Denied

~~SECRET~~

CONFIDENTIAL

~~SECRET~~

CONFIDENTIAL